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Uzbekistan, Republic of

Cotton and Products

Cotton Update

2008

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Report Highlights:

A hot dry spring and shortages of irrigation water reduced yields and Uzbekistan's MY2008/09 cotton production forecast is lowered to 5.04 million bales. The export forecast has been lowered to 3.8 million bales.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Quarterly Report
Ankara [TU1]
[UZ]

PRODUCTION

Uzbekistan's MY 08/09 cotton harvest has come to an end. As of November 8, state media declared that farmers had harvested 98 per cent of the total state target for seed cotton -- 3.6 million metric tons. Some independent analysts find this report unrealistic, as producers have had to cope with challenging weather conditions this year: Last winter was unusually cold with above-normal snow. In addition, spring came early and was very hot and dry, resulting in the quick evaporation of ground moisture. In several regions, considerable shortages of irrigation water were experienced during the crop's vegetation. Consequently the real harvested seed cotton number will be lower than the state official target. Based on an estimate of 3.3 million metric tons of seed cotton output, Post forecasts Uzbekistan's MY 08/09 lint production at 5.04 million bales.

Uzbekistan was not the only Central Asian region affected by irrigation problems this year. The governments of Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan continue discussions on how the region's water and energy supplies might be shared fairly.

Table 1: Cotton Production, Supply and Demand

Uzbekistan, Republic of Cotton

	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Yr Begin		08/2006	08/2006		08/2007	08/2007		08/2008	08/2008	MM/YYYY
Area Planted	0	0	1430	0	1430	1430	0	0	1420	(HECTARE)
Area Harvested	1430	1430	1430	1450	1430	1430	1420	0	1390	(HECTARE)
Beginning Stocks	1248	1248	1248	1198	1198	1198	1298	0	1248	1000 Bales
Production	5350	5350	5350	5500	5500	5350	5100	0	5040	1000 Bales
Exports	0	0	0	0	0	0	0	0	0	1000 Bales
Net Import from Abroad	0	0	0	0	0	0	0	0	0	1000 Bales
Total Supply	6598	6598	6598	6698	6698	6548	6398	0	6288	1000 Bales
Imports	4500	4500	4500	4450	4580	4200	4150	0	3800	1000 Bales
Net Exports	900	900	900	950	920	1100	975	0	1200	1000 Bales
Domestic Use	0	0	0	0	0	0	0	0	0	1000 Bales
Domestic Consumption	900	900	900	950	920	1100	975	0	1200	1000 Bales
Ending Stocks	1198	1198	1198	1298	1198	1248	1273	0	1288	1000 Bales
Net Distribution	6598	6598	6598	6698	6698	6548	6398	0	6288	1000 Bales
Stock to Use %	22.18519	22.18519	22.18519	24.03704	21.78182	23.54717	24.83902	0	25.76	(PERCENT)
Yield	815	815	815	826	837	815	782	0	789	(KG/HA)

Production Policy

To ensure hard currency revenues and to support the growing textile sector, maintaining the stability of cotton production remains one of the government's primary objectives.

Nevertheless, on October 21, the government adopted a decree called "On Measures Of Optimizing Sown Area And Increasing Production Of Food Crops." As officially stated, the decree was adopted because of continuing irrigation water shortages and rising world food prices. A goal is to increase production and variety of food crops in order to meet domestic demand. According to this decree, in MY2009/10 cotton planted area will be decreased by 75,000 hectares to 1.315 million hectares, and accordingly the official seed cotton production target will be lowered to 3.4 MMT. The freed land will be used to produce grains and vegetables.

Shortly after the above-mentioned decree, the government adopted another decree on farm amalgamation, according to which smaller farms will be merged into larger farms. The decree does not contain specifics, but according to unofficial discussions the government may set a minimum size of 80-100 hectares on grain- and cotton-producing farms. Presumably farms for fruit and vegetable producers could be smaller, perhaps a minimum of 20 hectares. What is clear so far is that the intention is to undertake land reform in every region of Uzbekistan, in order to optimize production of food and fiber. Reportedly, the government's main concern in taking this decision was that farmers with only 15 or 20 hectares of land would never be able to afford agricultural machinery or to use credits effectively. But more important, consolidation will make it easier for the government to manage and control the sector. The process of amalgamation of small farms has already started in some regions, and the government wants to speed up this process before spring planting. As of October 1, 2008, the number of operating farms in Uzbekistan was 218,000 with a total land area of 5.89 million ha. At least 85 percent of all farms are less than 20 hectares.

CONSUMPTION

Ginning sector

The ginning sector continues to undergo major modernization and restructuring. In early days, 45 of 129 ginning mills of Uzbekistan were revamped, and as a result of this, although slowly the industry started to improve quality and maintain an average seasonal ginning outturn of around 32.9-33 percent. The government's new program, which runs through 2010, offers investment opportunities and aims to reconstruct 20 mills and modernize a further 21.

Textile industry

The Fourth International Uzbek Cotton Fair and Textile Conference took place in Tashkent on October 14-16, 2008. The conference and exhibition once again highlighted Uzbekistan's position as a leading producer and exporter of cotton. It also exuded a level of confidence that seemed unfazed by the boycott of Uzbek cotton declared by Wal-Mart and other European and American companies last August. During the conference Uzbek Minister of Foreign Economic Relations, Investments and Trade (MFERIT) declared that last year Uzbekistan's domestic cotton consumption was 280,000 tons and in the current MY it would reach 300,000 tons, somewhat higher than post's estimates.

In the past 10 years Uzbekistan has actively pursued the goal of becoming a textile power in the Central Asian region and a strong competitor on the international textile market. Since then some progress has been made in the modernization and re-structuring of the sector. The goods produced, mainly yarn and grey cloth, have gradually increased market share in Russia and Eastern Europe. During the past few years the focus has widened to expanding the further processing of primary textiles, in particular by increasing the number of vertically

integrated mills and thereby raising the value of end production and covering both local and export demand.

According to official reports, there are around 150 mills under Uzbekengilsanoat Association, representing more than 90 percent of the country's capacity and output. Of these mills, 90 are involved in the production of yarn and woven cloth, a further 50 produce knitted garments, 12 manufacture ready-made garments, and 3 produce hosiery goods. Although current capacity allows for the processing of about 300,000 tons of raw cotton, and production of 250,000 tons of yarn, 480 million square meters of fabric, 110 million pieces of knitted garments and 40 million pairs of hosiery, however, the latest numbers show that that the current capacity utilization rate for these goods is much lower.

Table 2. Textile production statistics

Commodity	2006	2007	2008 Jan/Jun	2008 Projected	Target 2011
Cotton yarn (tons)	160,000	170,000	80,000	200,000	400,000
Cotton fabric (Mil sq meters)	170.0	130.0	50.0	140.0	320.0
Knit garments (mil pieces)	36.0	47.0	27.0	66.0	-

DOMESTIC PRICES

At the end of August, just before the harvest, the Ministry of Finance established the procurement prices for seed cotton as well as lint. The current average procurement price for seed cotton (based on grade 2 class 5) equals Sums 430,000 per ton.

(Official exchange rate: Sums 1,350 = USD 1.00)

The current export price for Uzbek cotton is about USD 1,100 per ton based on the quotation of Index "A" of the Liverpool Cotton Exchange. As usual, Uzbek exporters offer a USD 70 per ton discount from that price, set the final export price, and the lint is usually sold on FOB basis.

TRADE

Due to estimated decrease in production numbers, Uzbekistan's MY2008/09 cotton exports are forecast to decrease to 3.8 million bales compared to 4.2 million bales in MY2007/08. According to official sources, during the last International Uzbek Cotton Fair Uzbek exporters concluded the so called memorandum of intentions (MOI) to sell about 950,000 tons cotton lint from MY08/09 and MY09/10 crops. Uzbek cotton is exported more and ore to Asian countries, including China, Republic of Korea, Bangladesh, Iran and other states in this region. For example, Bangladesh fills 65 percent of its annual demand of 2.7 million bales of cotton from Uzbekistan.

In addition to selling cotton through MFERIT trading companies and the Uzbek Commodity Exchange, the Dubai Cotton Center (DCC) began marketing Uzbek cotton in 2007. DCC which is capable of handling a volume of 200,000 tons annually aims by its activity to simplify purchase of Uzbek cotton for those customers who do not wish to travel to Uzbekistan.